

School District No. 69 (Qualicum)
Financial Statement Discussion & Analysis
For the Year Ended June 30, 2023

The following is a discussion and analysis of the Qualicum School District's financial performance for the fiscal year ended June 30, 2023. This report is a summary of the district's financial activities based on currently known facts, decisions, or conditions. The results of the current year are discussed in comparison with the prior year and budget. This report should be read in conjunction with the School District's financial statements.

OVERVIEW OF THE SCHOOL DISTRICT

The Qualicum School District serves more than 4,300 student FTE in: 11 school sites (8 elementary schools, 2 secondary schools and 1 alternate education school), Family Place, Collaborative Education Alternate Program, Indigenous Education Program and the Qualicum International Student Program.

The Board completed their Strategic Plan for 2023 to 2028 which guides the Board of Education and its employees and partners in delivering educational programs through the period 2023/24 to 2027/28. The Plan identified the following Strategic Priorities:

- To Learn – Focusing on student curricular skills and competencies that lead to meaningful graduation and a successful life beyond school
- To Give – Students leading local and global change
- To Grow – Supporting all learners in pursuit of equity of outcomes
- To Belong – Developing critical social skills and all the strategies necessary for a healthy self

UNDERSTANDING SCHOOL DISTRICT FINANCIAL PERFORMANCE

Annual surplus and accumulated surplus¹ are key financial statement performance indicators; however, interpreting the meaning of these figures in BC school districts is complicated by the use of fund accounting and deferral accounting. The use of fund accounting means the financial statements of school districts are a consolidation of three separate funds (operating, special purpose and capital), and each of these funds differs with respect to the methods of accounting used and the legislative and other constraints on budgeting and financial results. This means financial performance can only be fully understood by reviewing each fund separately. Financial

¹ Annual surplus is the extent to which annual revenues exceed expenses. If annual expenses exceed revenues the result is referred to as an annual deficit. An accumulated surplus position is the extent to which revenues from all prior years have exceeded expenses from all previous years. An accumulated deficit position occurs when expenses from all previous years exceed revenues from all previous years. When an accumulated deficit occurs, it means future revenues are needed to pay for past expenditures.

performance for each fund is reported in the supplementary schedules that follow the notes to the financial statements.

<p>Operating Fund</p> <p>2023 Revenues: \$55.1 million (2022-51.9M)</p>	<p>Annual program revenues and expenditures are reported within the operating fund and special purpose fund (see below). Annual and accumulated surplus within the operating fund are important indicators of financial performance and financial health for school districts. This is because school districts are not permitted to budget for or incur an <u>accumulated</u> deficit position. This means when a school district has accumulated operating surplus available it can be used to budget for future expenditures and to reduce financial risk associated with unforeseen expenditures.</p>
<p>Special Purpose Fund</p> <p>2023 Revenues: \$7.5 million (2022-6.9M)</p>	<p>The special purpose fund includes grants and school generated funds that are restricted for a specific purpose. Annual and accumulated surplus is always zero because revenues are recognized only as related expenditures occur (deferral method of accounting). If expenditures for a program within the special purpose fund exceed available revenues, the resulting deficit is transferred to the operating fund reducing accumulated operating surplus.</p>
<p>Capital Fund</p> <p>2023 Capital Funding Received or Receivable: \$3.8M (2022-3.3M)</p> <p>2023 Capital Assets Purchased: \$1.8 million (2022-2.0M)</p>	<p>The capital fund reports investment in and financing activities related to capital assets. Capital contributions (funding) from the Province are accounted for using the deferral method of accounting, whereby recognition of capital funding revenue is spread out over the life of the related capital assets to match with the amortization expense which reflects the use of the asset over its life. This means capital fund revenues are not a reflection of funding actually received in a given year. Also, capital revenues only offset amortization expense in the capital fund to the extent assets were funded by provincial capital grants. As many capital investments are funded by operating revenues (recorded as transfers of accumulated operating surplus to the capital fund), the capital fund normally reports an annual deficit.</p> <p>In short, capital fund revenues, expenses and annual deficit are not a meaningful indicator of annual financial performance.</p>

FINANCIAL HIGHLIGHTS

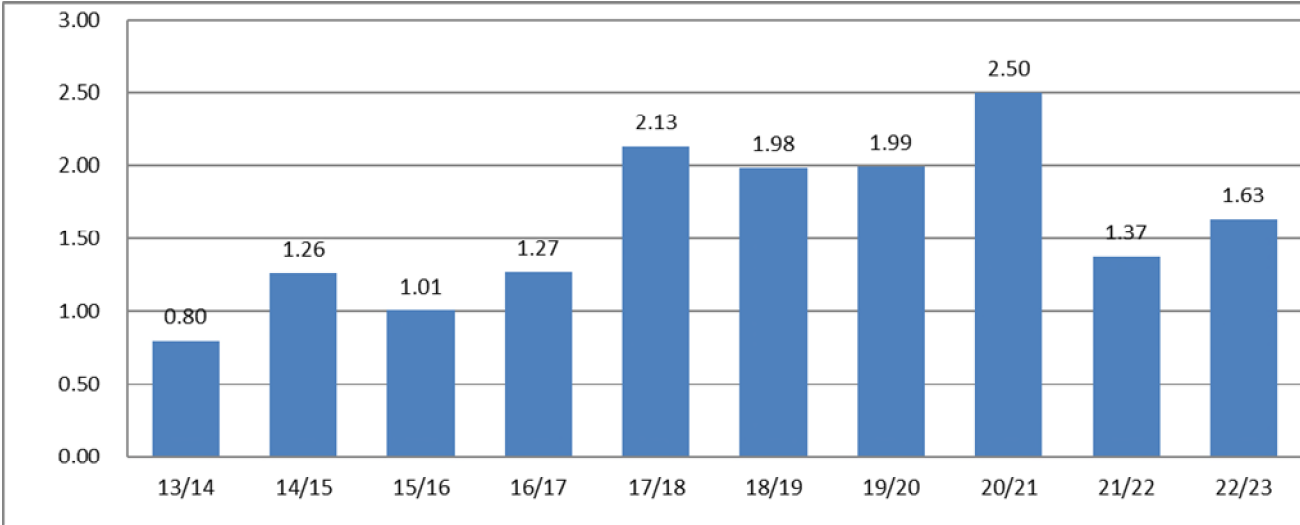
As reported in the Statement of Operations, for the year ended June 30, 2023 the district's expenses exceeded its revenues resulting in a combined annual deficit of \$72,824 (2022 combined deficit was \$1,344,578). This was comprised of the combined financial results of the operating fund and the capital fund as follows:

Annual Surplus (Deficit)	June 30, 2023	June 30, 2022
Operating Fund	259,712	-1,126,688
Capital Fund	-332,536	-217,890
Combined	-72,824	-1,344,578

Looking at the operating fund, the annual surplus of \$259,712 resulted in an increase to accumulated operating surplus from \$1,374,472 at the beginning of the year to \$1,634,184 as at June 30, 2023. This overall increase in accumulated operating surplus was the result of increased revenues that was not matched by expenditures. While actual results in a number of expenditure areas were either higher or lower than budget, the impact of these variances came close to an increase of \$1.93 million in expenditures.

Maintaining an accumulated operating surplus has alleviated some of the budget pressure over the past few fiscal years particularly due to impact of the pandemic and the economic uncertainties it created. As shown in Exhibit 1, accumulated operating surplus had increased in previous years to a high of \$2.50 million at the end of fiscal year 2021, however the unprecedented impact of the pandemic led to a need to use the surplus to balance the budget as Ministry funding has not kept up with inflationary and COVID created pressures.

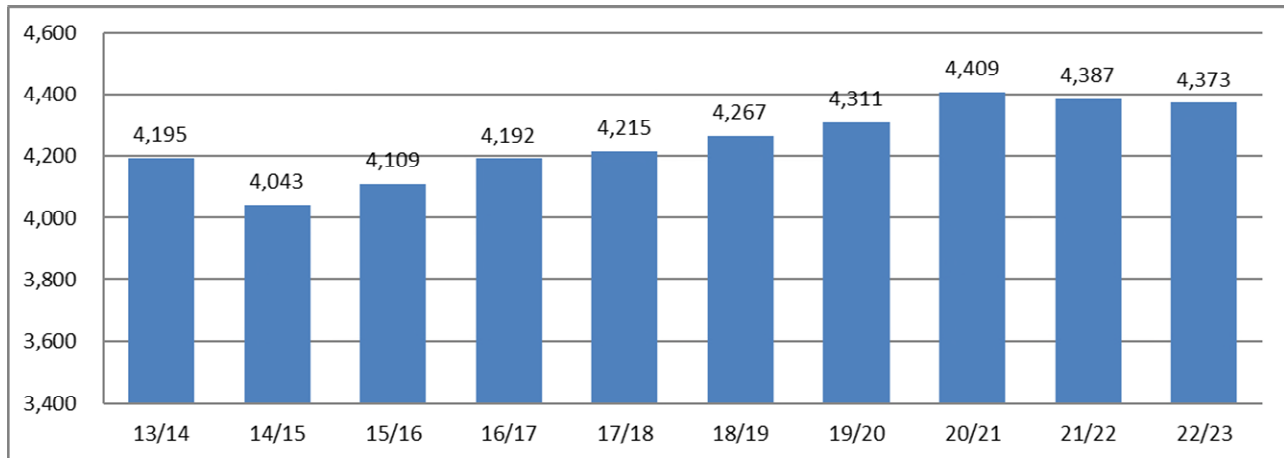
Exhibit 1: Accumulated Operating Surplus (\$ millions) by Fiscal Year



Over the past 10 years, significant financial pressure resulted from the combined effect of declining student enrolment and funding rates that did not pace inflation. These pressures contributed to some use of accumulated operating surplus as presented in Exhibit 1. Provincial operating grants, which comprise approximately 90% of total operating fund revenues, are determined largely based on student enrolment. As enrolment and funding declines, financial pressure results because many program expenditures such as facility and administration costs do not vary directly with student enrolment.

The trend in student enrolment is important for understanding both historical financial performance and the risk related to future budgetary balance. Under the per pupil funding formula, when enrolment increases a district is better able to fund overall program costs increasing financial flexibility. As shown in Exhibit 2, during the past 10 years the school district experienced a period of small growth followed by a small decline in student enrolment. The result of this stable enrolment means that there continues to be a risk to program and financial stability, i.e. no new students means no new revenues to support financial pressures.

Exhibit 2: Funded FTE Enrolment by Fiscal Year



Capital Investment

During the year ended June 30, 2023, the district invested \$1,767,726 in capital additions that were funded by: Provincial capital funding (\$1,737,140) and other funds (\$30,586). The majority of this capital investment related to the following facility projects:

Project	Total Allocation	Invested in 2022/23	Completion Date
Ballenas Secondary Roof Replacement	1,000,000	609,618	Summer 2022
Ballenas Secondary Ventilation Systems	940,000	561,849	Fall 2022
Solar projects – 3 sites	657,000	370,810	Fall 2022
Arrowview Child Care Centre	1,698,000	98,120	Fall 2022

Significant Events

Global Events – The COVID-19 outbreak was declared a pandemic by the World Health Organization in March 2020 and on February 24, 2022, Russia invaded Ukraine. Both these events have had significant impact on social, financial and economic pressures faced globally by organizations.

Specifically, COVID self isolation periods have increased the sick costs for staff due to the number of sick occurrences and the length of the occurrence, supply chain constraints have increased the costs of supplies and the energy market disruptions have increased gas and fuel prices impacting heating and transportation costs.

International Student Program – As anticipated, the ISP program was been profoundly affected by the pandemic and its ability to bring international students to the School District. The resultant rebound of the program in the following two years with an increase in enrolment has supported the financial impacts in other areas.

School Capacity Constraints – with the restoration of class size language and enrolment growth (primarily at elementary) some elementary schools are close to capacity. Over the past two years, growth has been accommodated by renovating internal space to create more classrooms. To accommodate future growth the district has been reviewing several options starting with minor boundary changes, which have cost implications for both the capital plan (capital fund) and the operating fund. The District started review of its Long Range Facility Plan in early 2021/22 in order to better align facilities with district enrolment.

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT

In this section, actual results are compared to the prior year and budget (where applicable). For the statement of operations, the analysis is performed for each of the three funds.

Statement of Financial Position (All Funds)

The table below includes explanations for significant variances in the statement of financial position relative to the prior year.

	2023	2022	Analysis of Variance
Cash	15,283,965	15,043,883	Increased by \$240,082 primarily due to an operating surplus where revenues exceeded expenditures.
Deferred Capital Revenue	43,484,830	44,274,713	Decreased by \$789,883 primarily due to amortization of DCR being greater than the capital additions.
Tangible Capital Assets	59,288,636	60,465,886	Decreased by \$1,177,250 due to capital asset amortizations being greater than the additions of capital assets.

Statement of Operations by Fund – Operating Fund

The 2023/24 Annual Budget did not include any planned appropriation of accumulated operating surplus for educational programs. However other appropriations consist of future projects including a capital maintenance reserve, school/district budgets that are carried forward, the planned purchase of bus route software and future operational needs. There is no unrestricted accumulated operating surplus.

Detailed information on the operating fund is presented in schedules 2 to 2C following the notes to the financial statements. Revenues, expenditures and accumulated operating surplus are analysed in greater detail below.

Operating Fund Revenues

A high level summary of operating fund revenues is presented below and explanations of significant variances follows. A more detailed presentation of operating revenues is presented in schedule 2A following the notes to the financial statements.

	Amended Budget 2022/23	Actual 2022/23	Difference to Budget	
Provincial Grants	49,866,532	49,628,525	-238,007	reduced enrolment in 2nd/3rd count
Other Provincial Revenues	150,000	140,016	-9,984	
Offshore Tuition	3,800,000	3,917,837	117,837	add'l students to ISP program
Miscellaneous other	140,000	251,920	111,920	add'l childcare revenue and misc. grants
Rental and Leases	600,000	726,127	126,127	add'l tenant revenues
Investment Income	420,000	453,311	33,311	
Total Revenues	54,976,532	55,117,736	141,204	

Operating Fund Expenses

Expenses in the financial statements are presented both by function (program) and by object (category of expense). Operating fund expenses are presented below using each method with explanations of significant variances following. A more detailed presentation of operating expenses is presented in schedules 2B and 2C following the notes to the financial statements.

Analysis of Variances by Function

	Amended Budget 2022/23	Actual 2022/23	Difference	
Operating Fund Expenditures by Function				
Instruction	43,437,495	42,974,161	(463,334)	reduce staffing due to 2nd/3rd count
District Administration	2,712,518	2,755,835	43,317	
Operations and Maintenance	6,664,045	7,255,566	591,521	cost escalations and use of approp surplus
Transportation	1,962,474	1,841,876	(120,598)	cost recovery and supply of drivers
Fund Transfers	200,000	30,586	(169,414)	low er than expected capital purchases
Total	54,976,532	54,858,024	(118,508)	

Analysis of Variances by Object

	Amended Budget 2022/23	Actual 2022/23	Difference	
Operating Fund Expenditures by Object				
Teachers	20,557,366	20,570,559	13,193	
Principals and Vice Principals	3,606,337	3,562,573	-43,764	
Support Staff	9,443,742	9,376,794	-66,948	
Other Professionals	1,893,638	1,879,734	-13,904	
Substitutes	2,078,572	2,137,250	58,678	
Benefits	9,660,259	9,637,421	-22,838	
Total Salaries and Benefits	47,239,914	47,164,331	(75,583)	
Total Supplies and Services	7,536,618	7,663,107	126,489	add'l costs from appropriated surplus
Fund Transfers	200,000	30,586	-169,414	low er than expected capital purchases
Total Operating Expenditures	54,976,532	54,858,024	(118,508)	

Accumulated Operating Surplus

Understanding the components of accumulated operating surplus is necessary for knowing how much of the balance relates to multi-year funding of programs (surplus carry-forwards) and how much of the balance is available to reduce financial risk associated with unforeseen expenditures or to fund additional expenditures in the future. The components of the closing accumulated surplus are presented in the table below:

	Actual 2021/22	Actual 2022/23
School budgets	97,227	40,000
Capital maintenance	331,493	268,700
Indigenous education	48,609	0
Software	0	125,000
Energy projects	62,337	0
Budgeted allocation of surplus	400,551	0
Appropriated for future years' operating budget	434,255	1,200,484
Internally restricted	1,374,472	1,634,184
Unrestricted operating surplus	0	0
Internally restricted	1,374,472	1,634,184

The appropriated operating surplus increased from \$1,374,472 to \$1,634,184 and includes no use of surplus to balance the 2023/24 budget and an additional appropriation (\$1,200,484) for future operational needs. There is no unrestricted operating surplus.

Detailed information on the operating fund is presented in schedules 2 to 2C following the notes to the financial statements.

Statement of Operations by Fund – Special Purpose Fund

	Amended Budget 2022/23	Actual 2022/23	Difference	
Provincial Grants	6,273,905	6,095,105	(178,800)	unspent SFAF and ECL grants
Other Revenue	1,325,000	1,449,310	124,310	additional school generated revenues
Expenditures	(7,598,905)	(7,544,415)	54,490	
Annual Surplus (Deficit)	0	0	0	

Provincial Grants in 2022/23 increased over the previous year by \$513,158 primarily due to the one-time Provincial Student and Family Affordability Fund that was introduced to offset the additional costs being borne by families in the areas of student supplies, field trips and food.

Other Revenues derived from School Generated Funds, increased over the previous year by \$111,351 primarily due to schools returning to pre-Pandemic levels of fundraising for extracurricular and field trips activities.

Detailed information on the special purpose fund is presented in schedules 3 to 3A following the notes to the financial statements.

Statement of Operations by Fund – Capital Fund

	Amended Budget 2022/23	Actual 2022/23	Difference	
Provincial Grants	3,209,673	3,802,554	592,881	additional expenditure of Capital funds
Expenditures	(3,552,348)	(4,165,676)	(613,328)	additional expenditure of Capital funds
Fund Transfers	200,000	30,586	(169,414)	lower than expected capital purchases
Change in Accumulated Surplus	(142,675)	(332,536)	(189,861)	

Revenues and expenses are consistent with budget and the prior year. This is expected because revenues and expenses in the capital fund are generally predictable and consistent, as they reflect the recognition of capital funding (as revenue) and the usage of capital assets over their life (as amortization expense). Fund transfers from the operating fund were lower than budget as less expenditures in the operating fund met the criteria for capitalization as an asset.

Within the capital fund the following two balances are important as they represent funds available for future capital investment:

- Local Capital Reserve – this balance forms part of accumulated surplus in the capital fund and represents funds available for investment in capital assets at the discretion of the Board of Education. These funds are generated primarily from proceeds of disposition of assets that are allocated to the School Board.
- MEd Restricted Capital – this balance forms part of the deferred capital revenue balance in the capital fund and represents funds available for investment in capital assets at the discretion of the Ministry of Education. These funds are generated primarily from proceeds of disposition of assets that are allocated to the Minister of Education pursuant to the *School Act*.

The table below presents the 2022/23 closing balances in Local Capital and other Unspent Deferred Capital reserves and indicate what portion of the balances are already committed to future capital investments.

	Local Capital- 2022/23	Unspent Deferred Capital Reserves		
		MEd Restricted Capital	Land Capital	Other Capital
Committed for:				
- mower replacement	50,000			
- Ballenas track replacement	136,990			695,005
- Land purchases			219,429	
Committed for future investment	186,990	0	219,429	695,005
Uncommitted Balance	126,020	15,984	0	0
Balance at end of year	313,010	15,984	219,429	695,005

The local capital balance includes funds committed by the Board to fund the Ballenas running track renewal project and a mower replacement with a balance of 126,020 remaining uncommitted.

Other Capital reserve includes contributions received from Regional District of Nanaimo, City of Parksville, Town of Qualicum and other public contributions to fund the Ballenas running track renewal project.

Other Capital reserve - List of Contributors	BSS Track Replacement
RDN	257,400
City of Parksville	250,000
Town of Qualicum	56,400
Public	101,747
Interest revenue	29,458
	695,005

In May 2023, the City of Parksville made an additional commitment of up to \$750,000 contingent on further contributions from RDN and Town of Qualicum.

Detailed information on the capital fund is presented in schedules 4 to 4D following the notes to the financial statements.

CONTACTING THE SCHOOL DISTRICT’S FINANCIAL MANAGEMENT

This financial report is designed to provide the School District’s stakeholders with a general overview of the School District’s finances and to demonstrate the School District’s accountability for the money it receives. If you have questions about this report or need additional financial information, please contact the Secretary Treasurer’s office.